

United States Senate  
WASHINGTON, DC 20510

March 1, 2016

The Honorable Tom Wheeler, Chairman  
The Honorable Mignon Clyburn, Commissioner  
The Honorable Jessica Rosenworcel, Commissioner  
The Honorable Ajit Pai, Commissioner  
The Honorable Michael O’Rielly, Commissioner  
Federal Communications Commission  
445 12th Street, SW  
Washington, DC 20554

Dear Chairman Wheeler and Commissioners Clyburn, Rosenworcel, Pai, and O’Rielly:

At a March 18, 2015 Federal Communications Commission oversight hearing held by the Senate Commerce, Science, and Transportation Committee, I suggested four specific reforms of the Lifeline program that should be implemented by the commission as part of any effort to expand the program to cover broadband service. Given the opportunity to disagree with any of the reforms, a bipartisan majority of the commission raised no objections, and in fact most spoke favorably of the proposed reforms.

Based on my work closely examining the Lifeline program for more than four years and my work over the course of my career in bringing transparency and accountability to government programs, I continue to believe any final Lifeline modernization order should include the following reforms:

1. Take eligibility determination out of the hands of telecommunications carriers;
2. Improve competition among participating telecommunications carriers;
3. Make sure consumers have “skin in the game”; and
4. Place a cost-cap or other cost-control mechanism on the program.

I was pleased to see that the Notice of Proposed Rulemaking approved by the commission on June 18, 2015 proposed removing carriers from eligibility determination and creating minimum service standards for carriers. I was also pleased to see that the NPRM sought to make increasing competition among carriers a priority, which will benefit both the consumers that participate in the program as well ratepayers who fund it. While the NPRM requested comment on whether and how to cap the Lifeline program, I am concerned it did not go further.

When a Republican-majority commission last expanded the Lifeline program in 2008 to allow the participation of pre-paid wireless carriers, the commission did so without putting additional accountability or cost-control measures in place. The result was a program that grew from \$800 million in 2008 to \$2.1 billion in 2012. Although spending on Lifeline in 2014 was down to \$1.6 billion, likely as a result of reforms adopted in 2012, the program is still spending twice what it was in 2008 while reports continue of waste, fraud, and abuse.

Particularly given that the NPRM included no estimate for what expanding the Lifeline program to cover broadband could cost, or for what savings could be realized by other proposed reforms, the commission should adopt a cost cap or other effective cost control for the Lifeline program to prevent a repeat of the unchecked increase in spending that was seen the last time the program was expanded. There is simply no justification for allowing the Lifeline program to remain the only Universal Service Fund program without a cost control mechanism in place.

The goal of a spending cap is not to deny telecommunications services to those who need them most, but rather to ensure the Lifeline program is accomplishing its intended goals. A cap imposed by the commission can also be revisited by the commission should spending approach that level and a determination can be made at that time whether eligibility criteria should be changed, the level of subsidy reduced, or the cap increased.

**With the commission poised to vote on a final Lifeline modernization order as early as this month, I request that you each provide a written response by Wednesday, March 16, 2016 indicating your position on applying a cost-control mechanism to the Lifeline program.**

Modernizing the Lifeline program to cover broadband service as opposed to basic phone service is a worthy goal and one I support in concept if accompanied by appropriate structural reforms to the program. Commissions under President Ronald Reagan and President George W. Bush created and expanded the Lifeline program without adequate accountability or cost controls in place. In 2012, the commission took its first step in the 30-year history of the Lifeline program to impose some accountability in the program for providers and beneficiaries. Those measures fell short of what was needed. However, this commission has the opportunity to adopt the reforms necessary to both bring the program into the 21<sup>st</sup> century and restore the confidence of the Congress and the American people that the Lifeline program is working effectively.

Sincerely,

A handwritten signature in blue ink, appearing to read "Claire McCaskill", with a stylized, cursive script.

Claire McCaskill  
U.S. Senator



FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON

OFFICE OF  
THE CHAIRMAN

March 16, 2016

The Honorable Claire McCaskill  
United States Senate  
730 Hart Senate Office Building  
Washington, D.C. 20510

Dear Senator McCaskill:

Thank you for your letter recognizing both the need for appropriate structural reforms to the Lifeline program and the value of modernizing the program to cover broadband.

Last week, I circulated a proposed Order for my colleagues' consideration that would modernize the Commission's Lifeline program to meet a critical 21st Century need: making broadband more affordable for low-income Americans. At the same time, the proposed Order would put in place a number of key programmatic reforms designed to protect the integrity of the Lifeline program and build on the Commission's recent efforts to root out waste, fraud, and abuse in the program.

Your letter specifically asks for my views on the importance of a "cost-cap or other cost-control mechanism" for the Lifeline program. I agree that such a mechanism is prudent to safeguard the financial stability and integrity of the Lifeline program while ensuring access for all eligible consumers. I have therefore proposed that, for the first time ever, the Commission take the necessary step of implementing a budget mechanism for the Lifeline program. The proposed approach has two parts.

First, the proposed Order would set a Lifeline budget of \$2.25 billion, indexed to inflation, that takes into account current participation rates, possible growth of the program as eligible consumers are made aware of its benefits, and safeguards in place to prevent waste, fraud, and abuse. This proposed budget acts as a ceiling, which allows for responsible organic growth from the current spending level, based on increased participation by eligible consumers generated by the program's support for broadband service. By establishing a reasonable budget in conjunction with complementary structural reforms, our goal is to meaningfully, but responsibly, narrow the digital divide that has left 64.5 million people in the U.S.—disproportionately those with the lowest incomes—without an Internet connection. The Commission took a similar approach in setting a budget for the Connect America Fund to put the Commission on a path to responsibly modernize the high cost universal service fund.

Second, the proposed Order establishes a process for the full Commission to promptly evaluate and address Lifeline funding in advance of the program hitting that \$2.25 billion budget. Specifically, if expenditures in the Lifeline program reach 90% of the budget in a given year, the

proposed Order requires Commission staff to notify the Commission and prepare a written analysis of the causes of the spending growth, with action by the full Commission within six months of receiving the report. This mechanism will ensure that the Commission has the notice and comprehensive information it needs to determine the reasons for growth in the program and a process to promptly make any necessary changes to the program in response.

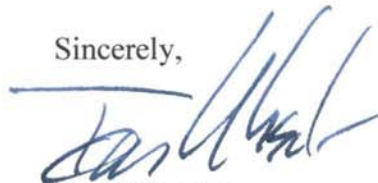
That budget mechanism would work in concert with other proposed structural reforms to further ensure the integrity of the modernized Lifeline program. Under the proposed Order, the Commission would establish a National Eligibility Verifier that removes telecommunications carriers from making eligibility determinations; make targeted changes to encourage robust competition in the Lifeline program; and implement minimum service standards to ensure eligible subscribers' benefits are directed only to quality services that are worthy of universal service funding. I expect that these rules will make Lifeline a truly 21<sup>st</sup> Century program that effectively and responsibly makes broadband service accessible for low-income households.

I also appreciate your recognition of the successful program reforms the Commission has implemented since 2012 to prevent waste, fraud, and abuse in the Lifeline program, such as creating the National Lifeline Accountability Database to prevent subscribers from receiving more than one benefit. As a result of these and other reforms, disbursements in the Lifeline program decreased from nearly \$2.2 billion in 2012 to under \$1.5 billion in 2015. The proposed Lifeline Order now before the Commission builds on these efforts. Through the budget mechanism and other reforms, like implementing a National Eligibility Verifier, the Commission would take the additional steps necessary to shut the door on the program's remaining fiscal vulnerabilities and ensure responsible spending in the program.

The proposed Lifeline Order was designed with two equally important goals in mind—to help connect low-income Americans to the Internet and to ensure the fiscal integrity of the program going forward. We need not choose between the two. We can—and must—have both.

I appreciate your interest in this matter and our work on this issue has benefited from your input and guidance. Your views are important and will be included in the record of the proceeding and considered as part of the Commission's review. Please let me know if I can be of any further assistance.

Sincerely,



Tom Wheeler